

## International Paper (IP)

**\$43.95** (As of 01/06/20)

Price Target (6-12 Months): **\$47.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/11/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: A

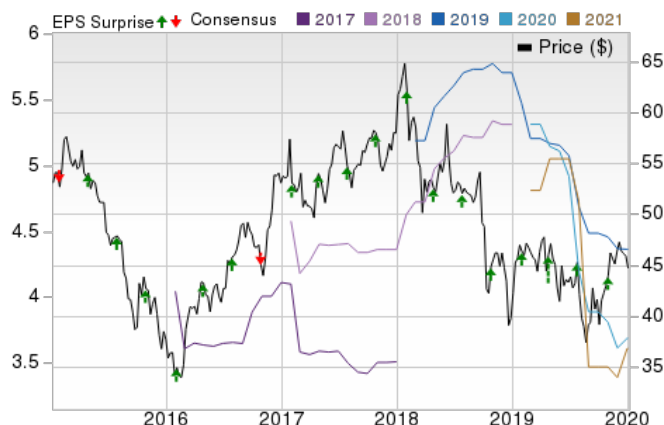
Growth: B

Momentum: A

## Summary

International Paper guides adjusted EBITDA of \$3.8 billion and free cash flow is projected at \$2 billion for the ongoing year. Healthy demand across all of its three segments is likely to show on 2019 results. However, fourth-quarter results will reflect the impact of lower price and unfavorable mix and operating expenses in its segments. Consequently, estimates for the current quarter have undergone negative revisions lately. The company intends to invest significantly to improve its North American containerboard mill system and reduce costs. International Paper aims to utilize its sound cash flow by investing in high return capital projects and returning cash to shareholders through increased dividend and share repurchases. International Paper will also benefit from restructuring initiatives and acquisitions.

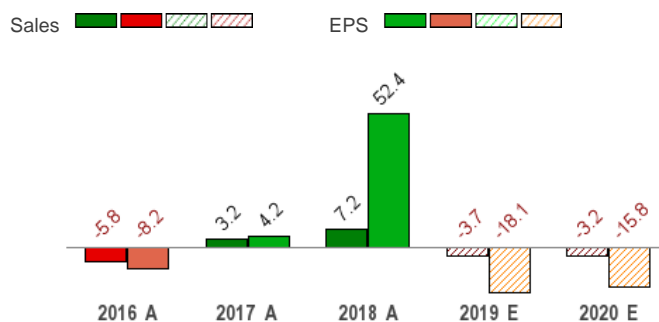
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	\$48.24 - \$36.45
20 Day Average Volume (sh)	2,831,197
Market Cap	\$17.2 B
YTD Price Change	-4.6%
Beta	1.52
Dividend / Div Yld	\$2.05 / 4.7%
Industry	<a href="#">Paper and Related Products</a>
Zacks Industry Rank	Bottom 13% (222 out of 254)

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.0%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	01/30/2020
Earnings ESP	-1.4%

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020					21,727 E
2019	5,643 A	5,667 A	5,568 A	5,575 E	22,453 E
2018	5,621 A	5,833 A	5,901 A	5,951 A	23,306 A

## EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.72 E	\$0.82 E	\$0.98 E	\$0.93 E	\$3.67 E
2019	\$1.11 A	\$1.15 A	\$1.09 A	\$1.02 E	\$4.36 E
2018	\$0.94 A	\$1.19 A	\$1.56 A	\$1.65 A	\$5.32 A

\*Quarterly figures may not add up to annual.

P/E TTM	8.8
P/E F1	12.0
PEG F1	2.4
P/S TTM	0.8

The data in the charts and tables, except sales and EPS estimates, is as of 01/06/2020. The reports text and the analyst-provided sales and EPS estimates are as of 01/07/2020.

## Overview

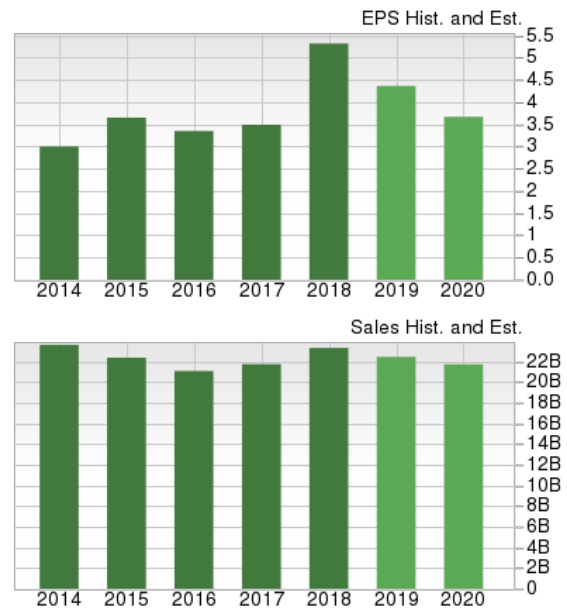
Incorporated in 1941, Headquartered in Memphis, TN, International Paper Company is a global producer of renewable fiber-based packaging, pulp and paper products with manufacturing operations in North America, Europe, Latin America, Russia, Asia, and North Africa. The company employs approximately 53,000 people and is strategically located in more than 150 countries serving customers worldwide.

The company currently has three operating segments as discussed hereunder.

- The **Industrial Packaging** segment (accounting for 68% of 2018 revenues) manufactures containerboard in the United States. Products include linerboard, medium, whitetop, recycled linerboard, recycled medium and saturating kraft. Additionally, the company recycle around \$1 million tons of OCC and mixed and white paper through 18 recycling plants. Container plants are supported by regional design centers, which offer total packaging solutions and supply chain initiatives. In EMEA, the company's operations include one recycled fiber containerboard mill in Morocco, a recycled containerboard mill in Spain and 26 container plants in France, Italy, Spain, Morocco and Turkey. Brazil operations include three containerboard mills and four box plants.

- The **Printing Papers** segment (19%) produces papers for use in copiers, desktop and laser printers and digital imaging. The primary product in this segment is uncoated papers. End-use applications include promotional materials like brochures and pamphlets.

- The **Global Cellulose Fibers** segment (13%) primarily makes pulp and represents the combined businesses of legacy pulp operations and acquired pulp business. Cellulose fibers product portfolio includes fluff, market and specialty pulps. The company's market pulp is used for tissue and paper products. Its products are made in the United States, Canada, France, Poland, and Russia and are sold around the world. International Paper facilities have annual dried pulp capacity of about 4 million metric tons.



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## Reasons To Buy:

- ▲ International Paper delivered solid earnings and generated strong operating cash flow in the reported quarter by efficiently managing costs across all business segments. The company guides adjusted EBITDA of \$3.8 billion and free cash flow is projected at \$2 billion, up from free cash flow of \$1.7 billion generated in fiscal 2018. In the North American Industrial Packaging business, box demand remains strong aided by e-commerce and export volume. Further, the company's focus to serve the rapidly-growing segments will be an important contributor to the strong performance. In the Global Cellulose Fibers business, the company continues to improve fluff pulp shipments. Also, higher fluff volume is expected to offset lower paper grade market for pulps. New product introductions in the fluff pulp segment as well as the company's optimization initiatives are likely to drive results. In the Printing Papers segment, stronger seasonal demand in North America and Brazil will bolster the segment's performance.
  - ▲ International Paper is undergoing restructuring initiatives to transform itself into a core packaging company. The company has strategically offloaded businesses in China to focus more on its U.S. operations. It believes that it could cater to the Chinese and Asian markets more effectively by supplying globally competitive products primarily through its Ilim joint venture in Russia and through exports from the United States and other parts of the world. International Paper also completed the divestiture of its consumer packaging business in North America to Graphic Packaging. The divestiture helped the company to focus on its core businesses and strengthen its balance sheet. The company intends to invest significantly to improve its North American containerboard mill system, enhance product quality, and reduce manufacturing and delivery costs.
  - ▲ Mergers and acquisitions remain a key strategy for International Paper to strengthen its long-term business proposition. In North America, the company envisions a large opportunity within its industrial packaging businesses, which continue to generate the best margins in the industry. The company is taking initiatives to drive further margin expansion over time across the business. International Paper has completed the acquisition of leading timberland owner Weyerhaeuser Co.'s pulp, which has strengthened International Paper's position in the global fluff pulp market and augmented its operating cash flow. The acquisition provides the company with a higher flexibility to manage a wide portfolio of products to meet customer needs through superior R&D capabilities and priceless patent portfolio.
  - ▲ International Paper aims to utilize its sound cash flow by investing in high-return capital projects, reducing total debt and returning greater proportion of cash to shareholders through increased dividend payouts and share repurchases. Through third-quarter 2019, the company returned \$1.1 billion to shareholders through dividends and share repurchases and used \$400 million for debt repayment. In October, the company announced 2.5% hike in its quarterly dividend to an annual payout of \$2.05 per share. Further, the company is also taking decisive measures to de-risk the company and strengthen its balance sheet.
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International Paper will benefit from favorable demand trends across all its segments, restructuring initiatives, investment in high-return capital projects, and mergers and acquisitions.

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## Reasons To Sell:

- ▼ In the Industrial Packaging segment, containerboard and pulp volume came under pressure in the third quarter, driven by unfavorable global demand, customer destocking as well as lower export containerboard pricing and pulp shipments. The company is facing structural challenges due to the impact of tariffs and a strong U.S. dollar in addition to weaker demand due to the recession in Turkey, which is a major importer of U.S. containerboard. In the fourth quarter, price and mix is likely to have impacted earnings, due to impact of prior index movement in North America and export pressure. Operations and costs are expected to lower earnings by \$15 million.
- ▼ In the Global Cellulose Fibers segment, reduced price and mix is expected to hurt bottom-line by \$30 million, due to the impact of prior index movement in fourth-quarter 2019.. In the Printing Papers business, price and mix are likely to lower earnings by \$25 million, primarily in North American and Latin American business. Also, operations and costs are expected to hurt earnings by \$40 million due to the higher seasonal energy consumption across papers portfolio.
- ▼ The company depends heavily on raw materials such as wood fiber, purchased in the form of pulpwood, wood chips and old corrugated containers ("OCC"), and certain chemicals, including caustic soda and starch, and energy sources, principally natural gas, coal and fuel oil. Elevated input costs (fiber, chemicals, energy, and freight) will suppress margins in the near term. Further, distribution costs are trending upwards lately due to a very tight truck and rail availability as well as higher diesel fuel cost. This will affect the company's margins in the near term.

Lower price and unfavorable mix, operating expenses in its segments, rising raw material and distribution costs as well as unfavorable foreign currency translation remain concerns.

## Last Earnings Report

### International Paper Q3 Earnings Top, Sales Lag Estimates

International Paper reported third-quarter 2019 adjusted earnings of \$1.09 per share, down 30% year over year. However, the bottom-line figure outpaced the Zacks Consensus Estimate of \$1.00.

Including one-time items, earnings during the July-September quarter came in at 87 cents compared with the year-ago quarter's \$1.37.

Net sales declined to \$5,568 million in the reported quarter from \$5,901 million in the year-ago quarter. Further, the reported figure missed the Zacks Consensus Estimate of \$5,730 million.

Cost of sales was \$3,772 million, down from the \$3,887 million recorded in the prior-year quarter. Gross profit declined 11% year over year to \$1,796 million. Selling and administrative expenses went down 4% year over year to \$387 million in the quarter. Adjusted operating earnings came in at \$431 million, reflecting a year-over-year decline of 33%.

### Segment Performance

Industrial Packaging: Sales in this segment slipped to \$3,820 million in the reported quarter from \$4,034 million in the year-earlier period. Adjusted operating profit declined 10.5% year over year to \$535 million.

Printing Papers: This segment's sales were \$1,071 million in the third quarter, down 2.8% from \$1,102 million in the year-earlier quarter. Adjusted operating profit for the segment was \$162 million compared with \$188 million in the year-ago period.

Global Cellulose Fibers: Sales of this segment came in at \$624 million compared with \$714 million in the prior-year quarter. The segment reported adjusted operating profit of \$4 million in third-quarter 2019 compared with \$85 million in the year-ago period.

### Balance Sheet

Cash and temporary investments aggregated \$697 million at the end of the third quarter of 2019 compared with \$589 million at the end of the 2018. As of the third quarter's end, long-term debt was \$9.96 billion compared with \$10.02 billion as of Dec 31, 2018.

Cash flow from operating activities was \$2.7 billion in the nine-month period ended Sep 30, 2019 compared with \$2.4 billion generated in the prior-year comparable period. Free cash flow was \$1,769 million during the nine-month period ended Sep 30, 2019 compared with \$1,119 million in the comparable period last year.

International Paper repurchased shares worth \$74 million during the third quarter, bringing the trailing 12-month total to \$685 million. The company has paid dividend worth \$595 million so far this year.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	-0.77%
EPS Surprise	9.00%
Quarterly EPS	1.09
Annual EPS (TTM)	5.00

## Valuation

International Paper's shares are up 2.8% over the trailing 12-month period. Stocks in the Zacks Paper and Related Products industry are down 4.8% while the Zacks Basics Materials sector are up 3.3% over the past year.

The S&P 500 index has gained 25.8% in the past year.

The stock is currently trading at 11.93X forward 12-month earnings, which compares to 6.39X for the Zacks sub-industry, 13.58X for the Zacks sector and 18.71X for the S&P 500 index.

Over the past five years, the stock has traded as high as 17.50X and as low as 6.59X, with a 5-year median of 11.84X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$47 price target reflects 12.76X forward 12-month earnings per share.

The table below shows summary valuation data for IP:

Valuation Multiples - IP					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	11.93	6.39	13.58	18.71
	5-Year High	17.5	15.21	21.12	19.34
	5-Year Low	6.59	4.15	9.76	15.17
	5-Year Median	11.84	11.86	13.77	17.44
EV/EBITDA TTM	Current	5.26	11.33	9.58	11.99
	5-Year High	12.95	16.25	18.17	12.86
	5-Year Low	4.49	4.7	7.34	8.48
	5-Year Median	6.85	7.63	10.51	10.67
P/B TTM	Current	2.31	3.47	2.33	4.41
	5-Year High	5.47	6.73	3.54	4.45
	5-Year Low	1.93	1.5	1.34	2.85
	5-Year Median	3.94	2.32	2.17	3.6

As of 01/06/2020

## Industry Analysis Zacks Industry Rank: Bottom 13% (222 out of 254)



## Top Peers

Neenah Paper, Inc. (NP)	Outperform
Verso Corporation (VRS)	Outperform
Clearwater Paper Corporation (CLW)	Neutral
Glatfelter (GLT)	Neutral
Packaging Corporation of America (PKG)	Neutral
Veritiv Corporation (VRTV)	Neutral
WestRock Company (WRK)	Neutral
Domtar Corporation (UFS)	Underperform

Industry Comparison Industry: Paper And Related Products				Industry Peers		
	IP Neutral	X Industry	S&P 500	NP Outperform	PKG Neutral	WRK Neutral
<b>VGM Score</b>	<b>A</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Market Cap	17.23 B	1.36 B	23.72 B	1.15 B	10.03 B	10.84 B
# of Analysts	6	1	13	1	6	6
Dividend Yield	4.66%	1.32%	1.79%	2.64%	2.98%	4.43%
<b>Value Score</b>	<b>A</b>	-	-	<b>C</b>	<b>B</b>	<b>A</b>
Cash/Price	0.04	0.06	0.04	0.01	0.07	0.01
EV/EBITDA	7.35	7.13	13.90	15.02	8.05	6.54
PEG Ratio	2.38	1.58	2.00	NA	3.09	2.93
Price/Book (P/B)	2.31	1.30	3.34	2.84	3.31	0.92
Price/Cash Flow (P/CF)	5.04	5.42	13.67	11.99	8.49	4.25
P/E (F1)	11.89	14.42	18.72	18.15	15.45	12.53
Price/Sales (P/S)	0.75	0.59	2.66	1.19	1.43	0.59
Earnings Yield	8.35%	6.82%	5.31%	5.51%	6.47%	7.99%
Debt/Equity	1.37	0.69	0.72	0.53	0.88	0.81
Cash Flow (\$/share)	8.72	1.53	6.94	5.69	12.49	9.89
<b>Growth Score</b>	<b>B</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Hist. EPS Growth (3-5 yrs)	12.09%	6.58%	10.56%	-1.02%	16.20%	14.73%
Proj. EPS Growth (F1/F0)	-15.89%	-3.04%	7.42%	10.91%	-10.25%	-15.70%
Curr. Cash Flow Growth	22.73%	22.73%	14.83%	-10.70%	21.58%	9.85%
Hist. Cash Flow Growth (3-5 yrs)	3.57%	3.57%	9.00%	4.19%	17.00%	23.04%
Current Ratio	1.49	1.63	1.23	2.42	3.28	1.45
Debt/Capital	57.89%	40.71%	42.92%	34.67%	46.90%	44.86%
Net Margin	6.03%	2.78%	11.08%	5.46%	10.94%	4.72%
Return on Equity	26.97%	8.10%	17.16%	13.35%	26.92%	8.81%
Sales/Assets	0.67	0.79	0.55	1.13	1.01	0.60
Proj. Sales Growth (F1/F0)	-3.23%	-0.27%	4.15%	NA	-1.93%	-0.29%
<b>Momentum Score</b>	<b>A</b>	-	-	<b>A</b>	<b>A</b>	<b>B</b>
Daily Price Chg	-1.72%	-1.46%	0.10%	-0.74%	-2.98%	-1.52%
1 Week Price Chg	-2.55%	-1.83%	-0.30%	-2.58%	-2.28%	0.09%
4 Week Price Chg	-7.32%	-1.36%	2.33%	-5.37%	-6.67%	2.79%
12 Week Price Chg	6.86%	14.50%	7.02%	14.50%	-1.20%	16.65%
52 Week Price Chg	2.76%	5.03%	24.61%	11.61%	21.78%	5.21%
20 Day Average Volume	2,831,197	83,571	1,589,897	83,571	621,797	1,959,157
(F1) EPS Est 1 week change	-0.45%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.64%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-5.21%	-10.48%	-0.56%	7.43%	-4.41%	-0.74%
(Q1) EPS Est Mthly Chg	0.00%	-0.37%	0.00%	NA	0.00%	-0.74%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	B
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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